

## News from the International Capital Market Association (ICMA)

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### **Panda bonds - the foreign issuer perspective**

*New report from ICMA and NAFMII outlines progress made in making China's domestic bond markets accessible to international issuers.*

NAFMII and ICMA, have jointly published [‘The panda bond market and perspectives of foreign issuers’](#) detailing the views of foreign issuers on the attractiveness of China's panda bond market. (A panda bond is a debt security issued in the domestic Chinese bond market by a foreign institution registered outside China.)

Commenting on the report Martin Scheck, ICMA Chief Executive said: “The ICMA-NAFMII report shows that the onshore Chinese bond market is an increasingly attractive potential funding source for a wide range of international issuers and that progress is being made in encouraging them to issue panda bonds. We welcome further initiatives to streamline and clarify the issuance process”.

While China's bond market had grown to RMB70 trillion (more than US\$10 trillion) by the end of August 2017, making it the third largest in the world, efforts to make the domestic bond market more accessible to foreign issuers and investors are still in the early stages. As of the end of August 2017, 42 panda bond issuers had entered the Chinese interbank market, including international development institutions, sovereign governments, financial institutions, and non-financial enterprises, from North America, Europe and Hong Kong. By the end of August 2017, foreign issuers had issued a total of RMB11 billion panda bonds through 57 transactions; the current outstanding volume is RMB96 billion.

The report, a product of the 8th UK-China Economic and Financial Dialogue, is based on interviews with issuers active in the international debt capital based in all regions and identifies the main reasons why the market is potentially attractive, including:

- *Funding onshore operations:* Raising RMB directly onshore can simplify cash flow operations and reduce potential currency risk to match their RMB funding needs for foreign corporates with operations in China.
- *Investor diversification:* The large Chinese bond market investor base presents a significant opportunity to expand the base of creditors.
- *Liquidity:* The onshore bond market is perceived to be generally more liquid than the offshore dim sum market.
- *Marketing considerations:* Issuance of panda bonds by foreign institutions helps domestic market participants to develop a better understanding of how these institutions operate, builds trust between the two sides, and ultimately fosters the sustainable and efficient operation of foreign institutions in China.

- *Global funding:* The Chinese onshore bond market, like other international markets, may present an opportunity for foreign issuers to obtain funding in their primary currency (usually US dollars, euro or pounds sterling) at attractive rates by issuing in RMB and entering into a cross-currency swap for their primary currency.
- *Market innovation:* The issue of some panda bonds to date has been motivated at least in part by a desire to be one of the first to market with an innovative transaction.

The report also describes the procedures for issuing panda bonds, including private placements, using case studies to illustrate the process.

The international issuers interviewed also indicated that they would welcome further guidance and clarity on the issuance procedure to have more certainty over the issuance timetable and their ability to satisfy the regulator's requirements for a successful issuance. Currently, the rules governing Chinese domestic bonds serve as the basis for the regulatory framework for panda bonds, which is being adjusted in view of the special requirements of foreign issuers on the use of proceeds, preparation of registration documents and information disclosure.

[‘The panda bond market and perspectives of foreign issuers - English’](#)  
[‘The panda bond market and perspectives of foreign issuers - Chinese’](#)

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**NAFMII** is a self-regulatory organization which aims to promote sustainable development of the China OTC market through innovations, self-discipline and serving market players. NAFMII focuses on three areas: promoting innovations, conducting self-regulation and providing quality services to its members. [www.nafmii.org.cn/english](http://www.nafmii.org.cn/english)

**The International Capital Market Association (ICMA)** is the trade association for the international capital market, with over 520 member firms from 63 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA established an Asia-Pacific representative office in Hong Kong in 2013 to address the needs of its members in the region and regulatory and market practice issues related to ICMA's areas of international expertise. ICMA has more than 70 member institutions in Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Taiwan. [www.icmagroup.org](http://www.icmagroup.org)